

Function 370: Commerce and Housing Credit

Function 370 includes deposit insurance and financial regulatory agencies such as the Securities and Exchange Commission (SEC); the mortgage credit programs of the Department of Housing and Urban Development (HUD) and the Department of Agriculture (USDA); the Department of Commerce's Census Bureau, its business promotion programs, and its technology development programs; rural housing loans; the Small Business Administration's business loans; the Postal Service (USPS); and other regulatory agencies such as the Federal Communications Commission (FCC).

Commerce-related Programs

Increases Fees on Some Small Business Loans — The budget increases fees on Section 7(a) general business guaranteed loans greater than \$1 million in order to cover the administrative costs of the program, which is run by the Small Business Administration (SBA). This fee increase comes on top of a policy, first implemented in 2005 and continued in this budget, of providing no subsidy funding for Section 7(a) loans and requiring instead that the cost of potential defaults be covered entirely through fees. The budget provides a total Section 7(a) loan volume for 2007 of \$17.5 billion — a \$500 million increase from 2006 — but it raises costs for entrepreneurs.

Eliminates Microloans and a Variety of Other Aid to Small Businesses — The budget again zeroes out microloans, a program that will provide an estimated \$20 million in loans in 2006 mainly to low-income entrepreneurs. In addition to loan programs, SBA runs a number of activities such as business information centers, women's business centers, and technical assistance to help entrepreneurs. The budget provides a total of \$106 million for these activities for 2007, a reduction of \$20 million, or 16.1 percent, from the 2006 enacted level. Within the total, the budget eliminates funding for several activities, including microloan technical assistance.

Slashes Funding for the Manufacturing Extension Partnership — The budget provides \$46 million for the Manufacturing Extension Partnership, a 56.2 percent cut from the 2006 enacted level of \$105 million. This program, which also receives state, local, and private funding, provides information and consulting services to help small businesses adopt advanced manufacturing technologies and business practices that will help them compete in a global market. Funding for the program has fluctuated dramatically in recent years, going from \$106 million for 2003 to \$40 million for 2004, and back to \$108 million for 2005 and \$105 million for 2006 before the budget slashes funding once again for 2007.

Increases Patent and Trademark Office Operating Budget — The budget includes \$1.8 billion for Patent and Trademark Office operations, an increase of \$160 million (9.5 percent) above the 2006 enacted level.

Terminates the Advanced Technology Program — The budget ends the Advanced Technology Program, which provides assistance to U.S. businesses and joint ventures to improve their competitive position. The goal of the program is to accelerate the commercialization of technology that is risky to develop but promises significant national economic benefits. This program received \$79 million in 2006.

Mortgage Credit Programs

Provides New Mortgage Programs to Reduce Barriers to Homeownership — The budget includes two new products through the Federal Housing Administration (FHA) mortgage program. One allows first-time buyers with strong credit records to make a zero down payment and finance their closing costs. The other program, for buyers with limited or weak credit histories, initially charges a higher insurance premium but reduces the borrower's premiums once the borrower establishes a history of regular payments and demonstrates creditworthiness. In addition, the budget establishes risk-based pricing of FHA mortgage insurance premiums to decrease costs for safer borrowers. Currently, FHA mortgage insurance premiums do not vary according to a borrower's credit risk.

Increases Rural Housing Single-Family Direct Loans — The funding level in the budget for rural housing direct loans will support a loan volume of \$1.2 billion to 11,000 families through the USDA Section 502 single-family housing direct loan program. This loan volume is \$108 million (9.6 percent) above the 2006 level. This increase will barely keep up with rising costs – USDA anticipates housing costs will rise 10.0 percent in 2007. The budget increases the fee on Section 502 guaranteed loans from 2.0 percent to 3.0 percent and supports a loan volume of \$3.5 billion, up \$26 million from 2006. Guaranteed loans generally cost borrowers more than direct loans.

Converts Multifamily Rural Housing Loans from Direct to Guaranteed — The USDA Section 515 multi-family housing direct loan program will support a loan volume of \$99 million in 2006 for projects that serve low-income tenants – many of whom are elderly – in rural areas. The budget provides no resources for direct loans for 2007. Instead, it increases the loan volume for Section 538 multi-family housing guaranteed loans by \$99 million, to a total of \$198 million. Guaranteed loans, however, result in higher rents for tenants, because the costs to borrowers are generally higher for guaranteed loans than for direct loans. The Section 515 program currently provides housing for about 470,000 tenants. The President's budget is the first budget request since 1963 that has not included any money for Section 515 preservation and new construction projects.